

**“TOWARDS EFFECTIVE GOVERNANCE
IN THE STATE SECTOR”**

ADDRESS BY THE HONOURABLE KENNETH VALLEY
MINISTER OF TRADE AND INDUSTRY AND
MINISTER IN THE MINISTRY OF FINANCE

**“GOVERNANCE STRUCTURES FOR THE EFFICIENT
FUNCTIONING OF THE STATE SECTOR”**

*Meeting of Chairman, Boards of Directors
and Chief Executive Officers of
the State Enterprise Sector.*

VENUE: Crowne Plaza Trinidad

DATE: December 04th, 2002

TIME: 8.45 a.m

GOVERNANCE STRUCTURES FOR THE EFFICIENT FUNCTIONING OF THE STATE SECTOR

- Honourable Prime Minister
- Attorney General
- Other Cabinet Colleagues
- Permanent Secretaries of the various Ministries
- Chairman, Directors and Chief Executive Officers of the State Enterprise Sector
- Ministry Officials
- Members of the Media
- Other Distinguished Guests

I am pleased to welcome you, the members of the state enterprises sector, here this morning, as partners in the implementation of Government's programme over the next five years.

Today's forum serves as a follow-up to our meeting last June when the Honourable Prime Minister hosted Chairmen and Deputy Chairmen of the State Enterprise Sector. At that time, the vision for transforming State Enterprises and the role they were expected to play was highlighted. The Honourable Prime Minister also emphasized the fact that the issues of Corporate Governance had begun to occupy a pivotal position on the agenda for global development.

Our discussions today will be along similar lines. We will be focusing on the Governance Structures within which you, as partners to Government, operate and the significance of good Corporate Governance to the effective functioning of the State Enterprise Sector.

The State Sector has assets under its control assets in excess of \$27Bn, employs a large section of the country's labour force and plays a major role in execution of Government's social and economic policy. The sector is a major implementing vehicle of Government policy in its quest to foster national development. To be effective at this task, the sector should be efficient and productive while exhibiting the highest standards of integrity in management.

In any association of business partners, roles and responsibilities must be defined clearly if confusion and anarchy are to be avoided. Effective Corporate Governance demands that within each enterprise, parties have defined roles and responsibilities and that there is acceptance and adherence to the norms.

The definition of roles has engaged successive administrations. In 1993, the Ministry of Finance published a *Performance Monitoring Manual*, which sought to outline the structure within which enterprises should operate. There have been a number of revisions since that time and this Manual continues to guide the relationships among the stakeholders.

The Manual reminds us that in the State Enterprise Sector Government, through the Cabinet, is at the helm and determines the policies for the

Sector. These policies are communicated to each enterprise by the Line Minister, through the Board of Directors. On the other hand, decisions on corporate matters are communicated through the Minister of Finance (Corporation Sole) who is responsible for management of the portfolio of investments.

The Board of Directors, under the leadership of the Chairman, guides the implementation of the policies for the enterprise as they relate to Government's macro-economic plans. Each enterprise has a management team which is responsible for implementing the policies formulated by its Board of Directors.

In the hierarchy of the organization, the management is accountable to the Board. The Board is accountable to the Minister who is in turn accountable to the Government. It goes without say that the Government is accountable to the people of Trinidad and Tobago.

Accountability implies a level of reporting, monitoring and evaluation of performance. If the Board assumes the role of management, if the Minister assumes the role of the Board, the evaluation process will be blurred. Each time that the Board makes a management decision it transfers the responsibility for that decision from the management to itself.

Ordinarily, one expects that the Board of Directors will provide the strategic leadership for the company while the management will implement the decisions of the Board. It is for the Board to ensure that an appropriate management team is engaged to implement its mandate. However,

oftentimes it appears that one party assumes the role of the other. This results in conflict. I therefore implore you to guard against these situations.

Further, the efficient functioning of your companies will normally require you to maintain ongoing discussion with your Line Ministers in order to ensure consistency between Government's macro economic policies and your plans, and you must also report to Government periodically on the attainment of the objectives proposed in the plan.

Ladies and Gentlemen: every Strategic Plan has funding requirements, whether from internally generated funds or from borrowings. These requirements must be discussed with the Minister of Finance (Corporation Sole) to ensure consonance with Government's macro-economic policies.

Financing from "own funds" reduces the returns which would otherwise accrue to the shareholder. Thus, it is reasonable to seek the shareholder's agreement to the alternate use of these funds. Financing from borrowings impact on availability of funds within the economy with associated implications for the private sector investors. In special circumstances, your funding requirements require support by way of transfers from the Treasury.

State Enterprise borrowings form part of public sector debt. As you are no doubt aware, international agencies review the size and sustainability of our debt and this influences our international standing. The Minister of Finance, in his role as Government's fiscal manager, must monitor the growth of public debt in order to ensure that such debt is maintained at sustainable levels.

It is in this regard, ladies and gentlemen, that the Minister of Finance (Corporation Sole) requires State Enterprises to obtain prior approval for any borrowings that they may wish to undertake.

The Ministry of Finance, over time, has developed a range of guidelines relating to matters with macro-economic implications. These guidelines are outlined in the *Performance Monitoring Manual* to which I have referred earlier. Government proposes to formalize these requirements by including them in new By-laws which enterprises will be required to adopt. A draft has been circulated to each enterprise and an extract of some of the new provisions has been provided as a handout today. You are urged to examine the draft and to provide comments to the Ministry of Finance by December 16th.

The By-laws propose to require each enterprise to make an annual public statement of its plans, including the targets which it intends to attain. The enterprise will give an account of its progress towards attainment of these targets at the end of each reporting period. This will not be a new exercise for some of you, however, there will be those who will consider this requirement as a challenge. Effective governance requires that you all operate at this level.

The By-laws will identify a number of strategic decisions for which the approval of the Shareholder is required. These include changing the nature of the business, changing the corporate structure of the parent company or of

existing subsidiaries, investment in new subsidiaries, and the acquisition or disposal of major assets of the company.

It is our view that each enterprise has been given the necessary resources to fulfill its mandate. In the circumstances, any change to the mandate or to the level of resources must be approved by the Shareholder.

The By-Laws include specific provisions related to conflict of interest. Directors will be restricted from carrying on a business of a similar nature to that of the company while they remain on the Board and for a specific period after demitting office. The By-laws also propose restrictive covenants which prevent Directors from enticing away, soliciting, or discouraging from dealing with the company, any manufacturer, supplier, client or employee of the company.

In addition to the proposed By-Laws, the Ministry of Finance has formulated a *Code of Best Practice*, which it is envisaged that State Enterprises will adopt. The purpose of the Code is to maximize corporate value by enhancing the transparency and efficiency of enterprises for the future. The Code treats with ethical issues relating to responsibilities of Directors and special attention is given to their responsibility for managing the process of information disclosure.

You are all aware that, from time to time, the Ministry of Finance requests information from you, in order to monitor enterprise performance effectively. Such information allows Government to monitor the impact of the State Sector on key economic indicators. Your submissions feed into the

overall reports on the sector and, as noted in the case of the state of your borrowings, international agencies place emphasis on these reports in determining our country's investment potential.

The evaluations conducted by Agencies such as *Moody's* and *Standard and Poors* influence the decisions of foreign investors.

One cannot over-emphasize the fact that **the emergence of a more informed, more critical investor has increased the demand for extensive, high quality public disclosure.** Our reporting to International Agencies must therefore be timely and accurate. For this to occur the Ministry of Finance is counting on you to ensure that the requisite reporting by your Agencies takes place.

To the extent that your operations reflect positive financial indicators, this will lead to positive investment ratings for Trinidad and Tobago. It is important to recognize that the country's investment rating impacts on the cost of doing business in Trinidad and Tobago. Government and corporate entities pay a risk premium on funds sourced in the international markets. This premium is linked to the country's rating, the cost of which eventually becomes a national expense to be borne by all our citizens.

I therefore urge you to ensure that the requested information is submitted in a timely manner.

In the spirit of improved disclosure policies and practices, we must also be cognizant of the *Freedom of Information Act*, which was proclaimed in

February 1999, giving members of the public a legally enforceable right to documents held by public authorities, including State Owned Corporations and Statutory Bodies.

As part of our programme for improving the governance framework, we have established a Central Audit Committee within the Ministry of Finance to monitor processes and practices to ensure your compliance with applicable laws, Cabinet decisions and regulations. This Committee will advise the Minister on the arrangements in place for promoting economy, efficiency and effectiveness within State Agencies. You are requested to cooperate with the members of this Committee so that we can achieve our objective. Responsible and effective corporate governance must be practiced at all levels in order for our collective goals to be achieved.

Having said all of this, the fact remains that in the final analysis, it is the Board of Directors that makes the difference. An active, committed Board of Directors is still the best regulatory body to oversee the management of enterprises to ensure the proper utilization of state-owned assets. Thus, while the Government will continue to take steps to modernize the monitoring framework for State Enterprises, we still must rely on the Boards of Directors to ensure that the goals and objectives of State Enterprises are in sync with those of the main Shareholder, the Government of Trinidad and Tobago, and that enterprises pursue their mission in an environment that places emphasis on good corporate governance and disclosure practices.

The Government has taken care in structuring the Boards of your companies. We believe each company has the mix of skills, experience and talent

required to guide the fortunes of the company. We thank you for accepting national service, for agreeing to do your part to assist in the development of your country... or your adopted country. We look forward to working with you over the next five years and, may I say, beyond. Together we can and will make Vision 2020 a reality.

We thank you for your support. We wish you all the best as you guide your companies through the challenging waters of the global era. Know that you can count on our support. We stand ready to assist.

Ladies and gentlemen, I thank you!